

Removal of Russian banks from SWIFT system: 5 things to know

Russian financial institutions handle about \$46 billion of forex transactions a day

MITSURU OBE, Nikkei staff writer

TOKYO -- The U.S. and Western allies said on Saturday that they would place sanctions on Russia's central bank and remove some Russian banks from the SWIFT global payments system.

In a joint statement, the leaders of the European Commission, France, Germany, Italy, the U.K., Canada, and the U.S. said they would take the economic measures to "hold Russia to account and collectively ensure that this war is a strategic failure for Putin."

Ursula von der Leyen, president of the European Commission, said that cutting Russian banks out of the system will stop them from conducting most of their financial transactions worldwide and effectively block Russian exports and imports.

French Finance Minister Bruno Le Maire on Friday called the exclusion of Russia from SWIFT as "the financial nuclear weapon."

Here are 5 things to know about SWIFT:

What is SWIFT?

SWIFT stands for the Society of Worldwide Interbank Financial Telecommunications. Founded in 1973, SWIFT is a messaging system that allows banks to send money to each other. It is used by more than 11,000 financial institutions in more than 200 countries. It uses standardized, secure codes that allow institutions to send and receive information, such as instructions for transferring money across borders.

What will happen if Russia gets disconnected from SWIFT?

Russian banks will no longer be able to make payments for trade and financial activities, effectively preventing the country from exporting commodities such as oil, coal and natural gas. It would also prevent Russia from importing key technologies such as semiconductors and machinery for its own industries.

Russian financial institutions handle about \$46 billion worth of foreign exchange transactions per day -- 80% of which are denominated in U.S. dollars. SWIFT handles 42 million remittances per day, of which Russian financial institutions accounted for 1.5% as of 2020.

How does it impact other countries?

There will be blow back because the move will disrupt the flow of oil and gas from Russia to other countries. The EU, for example, depends on Russia for 40% of its natural gas imports.

Also, European banks are among the biggest creditors to Russia, accounting for a large part of \$121 billion that Russia owes to foreign banks, according to the Bank for International Settlements. The removal of Russia from SWIFT will leave the question of how Moscow will make repayments on its foreign debt.

Why now?

The West has already imposed a series of sanctions, including asset freezes and a ban of transactions with Russia's state-owned banks. But these measures have done little to stop Russia from escalating its attacks on Ukraine.

How effective would it be?

It is unclear. Russia has been under economic sanctions since its annexation of Crimea in 2014, but that hasn't stopped Russian President Vladimir Putin from expanding the invasion of Ukraine.

North Korea has also shown the limits of economic sanctions. The country is completely cut off from the international economic system, but the Kim Jong Un regime continues to survive and keeps testing and developing new weapons.

Russia could also turn to China for trade, entirely bypassing the dollar-based transaction network